

HOUSING MARKET OUTLOOK

Calgary CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Total starts expected to surpass 10,000 units in 2012 for the first time since 2008

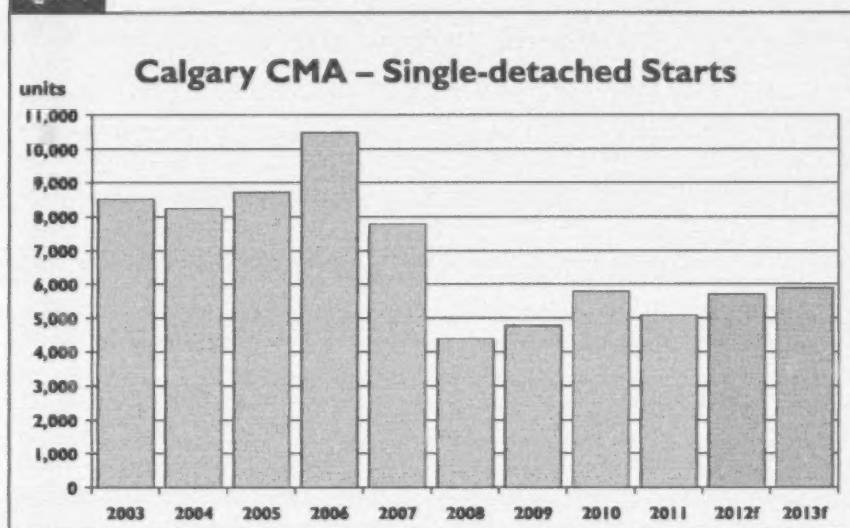
The rising pace of new home construction in the Calgary Census Metropolitan Area (CMA) in the

second half of 2011 is continuing in 2012. Total housing starts are forecast to rise 25 per cent in 2012 to 11,600 units, a stronger increase compared to 2011 when starts rose by less than one per cent to 9,292 units. Both single-detached and multi-family builders are expected to produce more units, with the apartment segment seeing the largest gains in new construction. Improved job creation, rising incomes, increased net

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Figure 1



Source: CMHC, CMHC Forecast (f)

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 27, 2012.

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migration, and continued low mortgage rates will support housing demand in 2012 and in the following year. Total housing starts in 2013 will reach 11,400 units, down two per cent from 2012.

Single-detached builders to start more homes in 2012

Some of the headwinds that single-detached builders faced in 2011 have started to ease. The well supplied resale market attracted many prospective buyers in 2011, tempering demand for new homes and contributing to a 12 per cent annual decline in single-detached starts. However, since the beginning of 2012, show home traffic from buyers has been encouraging as the economy continues to improve and active listings in the competing resale market trend lower. After three months, 1,256 single-detached units were started, up 28 per cent from the previous year. Employment growth, positive migration flows and favourable mortgage rates are key factors strengthening demand for new housing. Single-detached starts are forecast to reach 5,700 units in 2012, up 12 per cent from 2011. Expect another four per cent increase to 5,900 units in 2013.

Single-detached inventories have been gradually moving higher as builders prepare for the spring selling season. For most of 2010 and 2011, the number of complete and unoccupied units was below 400 units. In March, inventories increased 34 per cent year-over-year to 474 units, up from 354 units in 2011. The rise was mainly due to more spec units as show homes were up only slightly from a year earlier. Despite the increase, the number of complete and unoccupied

units has risen from relatively low levels and as such still remains within historical norms. Builders in the last couple of years have carefully managed their inventories to ensure that new homes did not contribute to the elevated supply that was present in the resale market. However, the number of homes underway has risen 14 per cent year-over-year in March, which creates the risk of higher inventories when completed and may moderate new construction growth in 2013.

Pressure on new home prices to be modest in 2012

Statistics Canada's New House Price Index (NHPI) saw little change in 2011, down 0.1 per cent from 2010. With single-detached starts down 12 per cent in 2011 to less than half of peak production in 2006, upward price pressure was relatively modest. The resale housing market also favoured the buyer in 2011, tempering price growth in the new home market. However, with supply in the resale market trending lower and demand for new homes improving, builders will see some modest price pressure in 2012. Higher construction activity may also put some upward pressure on builder input costs as demand for labour and materials increases. The NHPI in the Calgary CMA has been trending higher and is expected to end the year up 1.1 per cent. In 2013, the NHPI is forecast to post stronger gains, increasing two per cent from 2012.

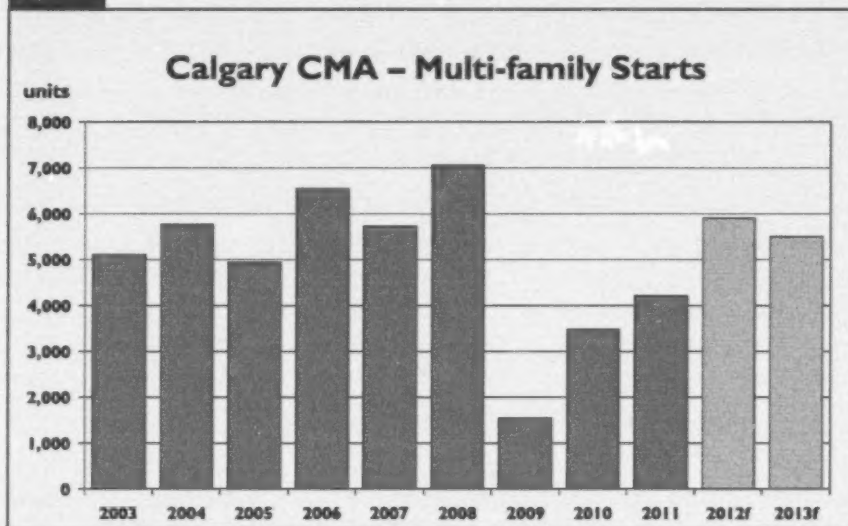
The absorbed price for a single-detached home in the Calgary CMA averaged \$547,670 in 2011, up 6.5 per cent from \$514,466 in 2010. The gain in the average absorbed price was more pronounced compared to the

NHPI as an increased proportion of higher priced homes were absorbed compared to the previous year. Some move-up buyers took advantage of low mortgage rates and the opportunity to build a new home. Readers should note that the absorbed price reflects units absorbed at or after completion in a given month, which is not necessarily the month when the price was negotiated. In alignment with the NHPI, the average single-detached absorbed price is forecast to increase 1.7 per cent in 2012 to \$557,000. In 2013, the absorbed price is anticipated to average \$567,000, up 1.8 per cent from the previous year.

Apartment production to bolster multi-family starts in 2012

Multi-family starts increased for the second consecutive year in 2011 with 4,208 units breaking ground, 21 per cent higher than the 3,480 units that started in 2010. The increase was due to higher apartment starts as this segment picked-up in the second half of 2011 and is also expected to lead multi-family production in 2012. The inventory of complete and unabsorbed units has declined from their elevated levels and the adjustment to condominium apartment prices have started to resonate with buyers. As such, the condominium apartment segment will see a busier year as builders secure pre-sales and start new projects. Semi-detached and row starts are also expected to experience some growth but the largest gains will be from new apartment construction. Multi-family starts in 2012 are forecast to rise 40 per cent to 5,900 units. In 2013, multi-family construction is forecast to remain near historical averages with 5,500 units breaking ground. Demand

Figure 2



Source: CMHC, CMHC Forecast (f)

will remain steady as multi-family units continue to attract first-time home buyers, investors, and those looking to downsize.

The number of complete and unoccupied multi-family units decreased 23 per cent from 725 units in March 2011 to 555 units in March 2012. The more moderate pace of multi-family production in previous years as well as stronger market conditions have helped lower inventories from their previously elevated levels. Most of the decline can be attributed to fewer apartment units which, at 404 units in March 2012, were down 34 per cent from 614 units in March 2011. Price adjustments and stronger demand from first-time home buyers have helped absorb these units. In contrast, row inventories have more than doubled compared to the previous year reaching 74 units in March, up from 32 units a year earlier. Semi-detached inventories on the other hand were down three per cent year-over-year in March 2012.

Although multi-family inventories have declined, some caution is warranted as the number of units under construction has risen. There were 6,765 multi-family units underway in March 2012, up 43 per cent from the previous year. A high proportion of these units are apartments, with 4,974 units in March representing an increase of 53 per cent from 2011.

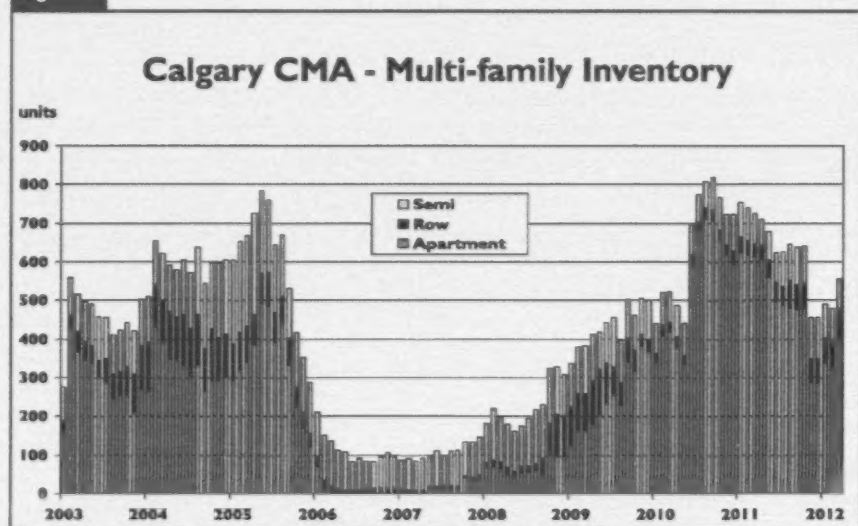
The rise in units under construction was not only due to new projects breaking ground. A number of projects that were put on-hold during the economic slowdown have also resumed construction adding to the under construction count. There is still projects on-hold, however, some of them are expected to eventually move forward as the economy improves. The number of semi-detached and row units under construction have also risen from a year earlier, up 14 and 26 per cent, respectively. As multi-family units reach completion, inventories will experience some upward pressure if these units are not quickly absorbed. This presents downside risk to the outlook in 2013.

RESALE MARKET

Resale market balance improving

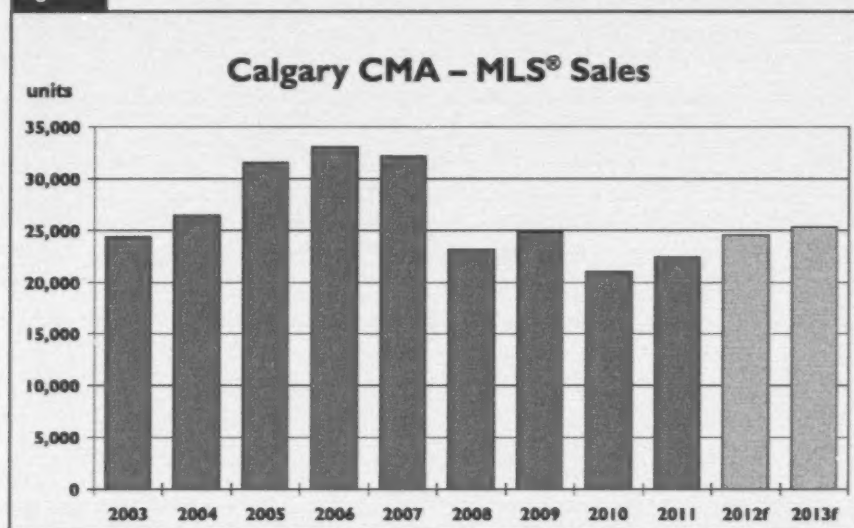
Residential MLS® sales in Calgary totalled 22,466 transactions in 2011, up seven per cent from 2010. A number of economic factors that

Figure 3



Source: CMHC

Figure 4



Source: CREA, CMHC Forecast (f)

support housing demand have strengthened in 2011, contributing to the rise in sales. Full-time job growth and favourable mortgage rates will continue to provide many prospective buyers an opportunity to purchase a home. The economic outlook has also improved encouraging some people to move ahead with their buying decision. Residential MLS® sales are forecast to increase nine per cent in 2012 to 24,500 units, rising for the second consecutive year. The gains in employment in 2011 and 2012 along with improved migration flows will sustain housing demand in 2013 when sales are forecast to reach 25,300 units.

Active listings were elevated for a number of years and contributed to the resale market favouring the buyer. However, with sales increasing and new listings moderating, active listings have been trending lower. As reported by the Calgary Real Estate Board, residential active listings totalled 8,650 units in March, six per cent lower than the previous year. With fewer listings and higher sales, resale market conditions are

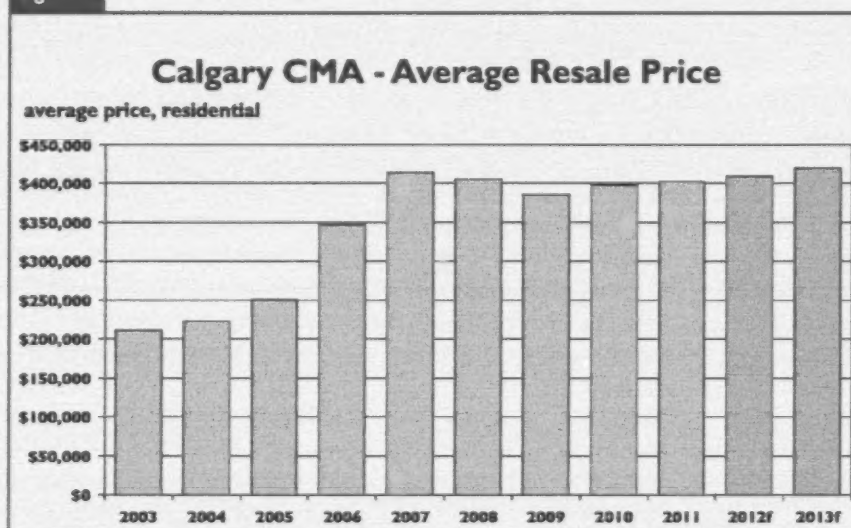
becoming more balanced in 2012. The sales-to-active listings ratio has increased to 31 per cent in March, up from 25 per cent in 2011. New listings are forecast to decrease 1.3 per cent year-over-year to 43,200 units in 2012, down from 43,781 a year earlier. As the sales-to-active listings ratio rises, home prices will experience more growth.

Average price expected to increase in 2012

Average price growth in Calgary remained tempered in 2011, as buyers benefitted from a well supplied resale market. The average price increased one per cent to \$402,851 in 2011, up from \$398,764 in 2010. Active listings in Calgary have passed their peak and as they continue to move lower and demand strengthens, home prices will experience more upward pressure. Home prices are expected to rise in 2012 as the market shifts from buyers' to balanced conditions with stronger gains in 2013. The growth in prices will help existing owners build up some more equity and trade-up to larger more expensive homes, also contributing to higher average prices. CMHC is forecasting the average price to increase to \$410,000 in 2012, up 1.8 per cent from the previous year and rise 2.4 per cent in 2013 to \$420,000.

To the end of March, residential MLS® sales totalled 6,068 in Calgary, up 10 per cent from 5,492 sales in the first quarter of 2011. Although sales in

Figure 5



Source: CREA, CMHC Forecast (f)

most price ranges have increased, higher priced homes have experienced the strongest gains, contributing to the rise in average price. Sales for homes priced at \$500,000 and higher increased 28 per cent year-over-year in the first quarter, whereas sales below \$500,000 increased only seven per cent.

RENTAL MARKET

Average rent to rise as vacancies move lower

Along with other areas in Calgary's housing market, the purpose-built rental market has experienced an up-tick in demand. The apartment vacancy rate in October 2011 declined to 1.9 per cent from 3.6 per cent in October 2010. The apartment vacancy rate is forecast to average 1.7 per cent in October 2012, and decline to 1.5 per cent in 2013. With people taking advantage of the growing employment opportunities in the region, migration flows to Calgary will continue to be among the strongest contributors to rental demand.

With vacancies declining, fewer incentives will be offered while rental rates are forecast to increase this year. The average two-bedroom rent is forecast to reach \$1,150 per month in October 2012, up from \$1,084 in October 2011. Pressure on rental rates will remain steady as people migrate to the region and no large net additions to supply are expected in the near term. Landlords and property owners may also see more demand from younger renters as youth employment has improved with Calgary's expanding economy. As such, the upward pressure on rental rates is not expected to ease in 2013. In October 2013, the average two-

Figure 6



Source: CMHC, CMHC Forecast (f)

bedroom rent is forecast to rise to \$1,200 per month, up \$50 from a year earlier.

The number of apartment rental units under construction, not including units for social housing, has increased from the previous year. There were 404 apartment rental units underway in March, up 41 per cent from 287 units a year earlier. Despite the increase, apartment rental starts have only contributed to a portion of the rental units under construction. Many of the apartment rental units underway were originally intended to be sold as condominium units. However, as market conditions changed, some property owners and developers decided to re-position their projects to take advantage of the growing demand in the rental market. The completion of the rental units under construction will likely not have a large impact on vacancy rates as an expanding population absorbs the new supply. Some older rental units are also anticipated to be converted into condominiums.

ECONOMIC OVERVIEW

Job growth and migration forecast to increase in 2012

The stage is set for the Calgary CMA to post another year of employment growth, following a 2.9 per cent rise in 2011. As was the case in the previous year, elevated oil prices and investments in the oil and oil sands sectors will be a main contributor to economic growth in 2012. Calgary is home to many head offices and companies that are related to the energy sector and as a result the prospect for strong job creation looks positive. Employment levels have been trending higher and after the first quarter were up 4.6 per cent from 2011, representing close to 33,000 new jobs. All of the jobs created after three months have been full-time positions, which bodes well for housing demand. As employers demand more labour, not only will

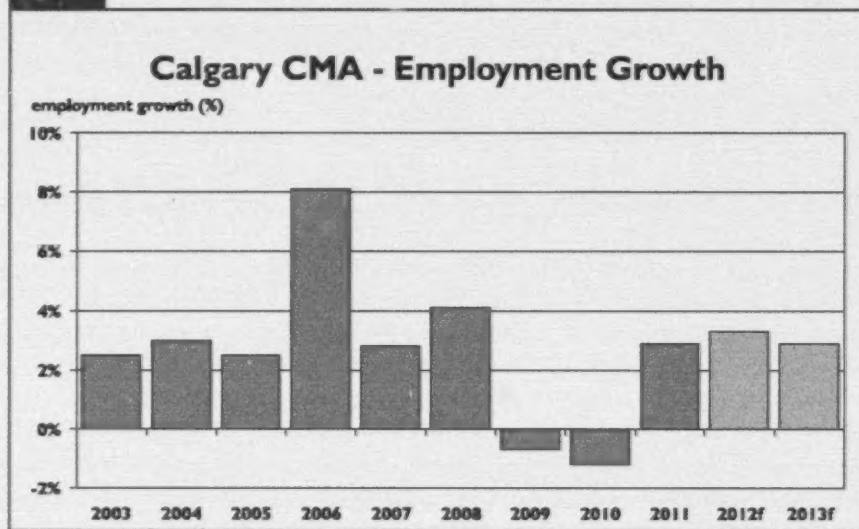
more positions be created but some part-time jobs will be turned into full-time positions. Employment in 2012 is forecast to increase 3.3 per cent. In 2013, employment levels are anticipated to rise 2.9 per cent from the previous year.

The unemployment rate averaged 5.8 per cent in 2011, down from 6.8 per cent a year earlier. Since 2010, the seasonally adjusted unemployment rate has been gradually moving lower, reaching 5.1 per cent in the first quarter of 2012. Employment growth has helped lower the unemployment rate, however as economic conditions improve and job prospects increase, more people will enter the labour force looking for work. As such, the decline in the unemployment rate will moderate. The unemployment rate is forecast to remain near current levels, averaging five per cent in 2012 and 4.7 per cent in 2013.

Average weekly earnings increased in the first quarter of 2012, up five per cent year-over-year to \$1,031 per week. This represents a welcome change from the first quarter of 2011 when earnings were down one per cent. The increase in average earnings is not only due to tighter labour market conditions but also the types of jobs being created. A majority of the jobs added have been full-time positions and were in higher paying industries, such as those in the goods-producing sector. The moderate pressure on earnings is not expected to ease as many employers look to attract the right people and fill their vacant positions.

Migration flows to Calgary are expected to increase as labour market conditions improve. Net migration in

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

2011 totalled 11,200 people, up 22 per cent from a year earlier but well below the 2001-2010 average of 17,792 people. Investments and growth in the energy sector have created more employment opportunities and have supported the demand for labour across a number of industries in the economy. Employers may also look beyond the local market to help satisfy their employment needs. As a result, net migration in 2012 is forecast to reach 17,000 migrants, up 52 per cent from 2011. Comparable levels are expected in 2013 with 17,100 net migrants.

MORTGAGE RATE OUTLOOK

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise

until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Calgary CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	24,880	20,996	22,466	24,500	9.1	25,300	3.3
MLS® New Listings	41,640	46,278	43,781	43,200	-1.3	42,500	-1.6
MLS® Average Price (\$)	385,882	398,764	402,851	410,000	1.8	420,000	2.4
New Home Market							
Starts:							
Single-Detached	4,775	5,782	5,084	5,700	12.1	5,900	3.5
Multiples	1,543	3,480	4,208	5,900	40.2	5,500	-6.8
Starts - Total	6,318	9,262	9,292	11,600	24.8	11,400	-1.7
Average Price (\$):							
Single-Detached	547,795	514,466	547,670	557,000	1.7	567,000	1.8
Median Price (\$):							
Single-Detached	450,302	435,251	457,271	465,000	1.7	472,000	1.5
New Housing Price Index (% chg.)	-6.7	1.7	-0.1	1.1	-	2.0	-
Rental Market							
October Vacancy Rate (%)	5.3	3.6	1.9	1.7	-	1.5	-
Two-bedroom Average Rent (October) (\$)	1,099	1,069	1,084	1,150	-	1,200	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	713,600	704,800	725,500	749,400	3.3	771,200	2.9
Employment Growth (%)	-0.7	-1.2	2.9	3.3	-	2.9	-
Unemployment rate (%)	6.7	6.8	5.8	5.0	-	4.7	-
Net Migration	22,334	9,209	11,220	17,000	51.5	17,100	0.6

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 27, 2012.

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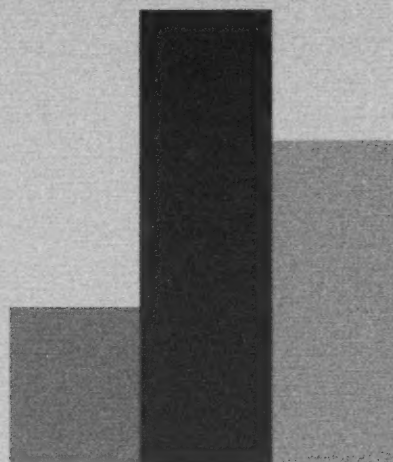
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